



Office of the President

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January 16, 2006

BCC: CW
RL
JRJ

Mr. Paul DeArment
Vice President
Sky Bank
101 E. Washington St.
New Castle, PA 16101

RE: Request for a Moratorium on Principal Payments and Revolver Reduction

Dear Paul:

As we discussed last week, we are still sparring with Lloyds on the insurance claim. They offered to settle an \$800,000 claim for \$400,000. As you know, we engaged the services of Pietragallo, Bosick & Gordon of Pittsburgh to assist us in settling this dispute. After a month of thorough investigation, Pietragallo has sent a letter to Lloyds requesting that our claim be paid in full. I sent you a copy of Pietragallo's letter. We will probably have to agree to a compromise settlement in order to prevent a prolonged legal battle. We will keep you informed and will not make any decision without your approval.

I have enclosed December's financial statement. S&T Bank and MELF have both granted us a moratorium on principal payments and we are staying current on all interest payments.

If everything goes as planned, we hope to restart production around March/April 1. Presently, we are having discussions with several interested investors and we are also working with several groups from the Federal Environmental Protection Agency regarding a possible grant and loan. The issues that got the EPA's attention are the recycling of hazardous magnesium waste into a saleable product, reduction of landfilling, significant energy savings and, most importantly, the 46 jobs. We are working with the Pennsylvania Recycling Market Center which is an organization created by the EPA specifically to help businesses in the recycling of waste materials. They seem to have taken a keen interest in our project and are working very diligently to try to secure \$1.0 million for us in the form of a grant or low-interest loan or a combination of both. We also have an investor group that has indicated they would be

Mr. Paul DeArment .

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willing to consider purchasing \$500,000 of convertible subordinated debentures if we can get the financing put together with the EPA.

Paul, it's going to take another month or so to finalize our financing plans, as described above. We need Sky's help in order for us to survive until plant startup the way we are presently operating. We are requesting a moratorium on principal payments on our term loan for the next three months and permit us to use the \$30,000-\$40,000 per month in receivables that we are generating from fees we charge for the raw materials that we receive. There is not sufficient cash for us to continue operation if Sky takes 80% of the receivables to reduce our revolver. We will have to shut down completely and be unable to continue our financing efforts. As a result of the quality adjustment to sales for Almamet and the loss of inventory from the fire, the borrowing base formula will not generate any working capital.

On the business side, the Chinese government has reduced the export rebate on magnesium products to 5% from 13%. The Chinese producer prices are now being increased by 8% which puts the Chinese Mg granule price at about \$0.92/lb delivered. Our forecast shows prices of \$0.80 FOB West Pittsburg. This is still an approximate 11% savings for Rossborough and Hart.

Jim Young, executive vice president with Rossborough, has indicated that they will take all four trucks per month as soon as we restart the plant. We feel Chinese prices are going to continue to climb over the next few years. They have too many environmental and social problems to resolve over the next decade that will require a greater income from their gross national product.

If you have any questions or would like additional information, don't hesitate to call.

Sincerely,

REMACOR, INC.

A handwritten signature in black ink that reads "Joe Jackman". The signature is written in a cursive, flowing style.

Joseph R. Jackman
President

JRJ/mjl

Enclosures (2)

REMACOR, INC.
BALANCE SHEET
December 31, 2005

ASSETS

Current Assets

Cash	\$ 895	
Accounts Receivable	249,768	
Insurance Receivable	622,500	
Inventory	174,039	
Prepaid Expenses	3,460	
Total Current Assets		\$ 1,050,662

Property, Plant and Equipment, Net

618,740

Other Assets

Deposits	24,691	
Loan Cost, Net of Amortization	13,037	
Website Cost, Net of Amortization	2,917	
Patents, Net of Amortization	2,802	
Subordinated Note Cost, Net of Amortization	11,250	
Acquisition Cost Land & Building	23,997	
Total Other Assets		78,694

Total Assets

\$ 1,748,096

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities

Line of Credit	\$ 460,646	
Current Portion-Long Term Debt	159,785	
Accounts Payable	245,875	
Accrued Expenses	212,698	
Total Current Liabilities		\$1,079,004

Non-Current Liabilities

Long Term Debt, Less Current Portion	725,525	
Convertible Subordinated Debentures	50,000	
Subordinated Notes Payable	300,000	
Total Non-Current Liabilities		1,075,525

Shareholders' Deficit

Common Stock - Par Value \$1.00		
Authorized 2,000 shares; Issued & Outstanding 1,355	1,355	
Paid In Capital	249,920	
Accumulated Deficit	(657,708)	
Total Shareholders' Deficit		(406,433)

Total Liabilities & Shareholders' Deficit

\$ 1,748,096

REMACOR, INC.
Statement of Operations & Accumulated Deficit
For Six Months ended December 31, 2005

	<u>Dec 2005</u>	<u>Year to Date</u>
<u>Sales and Fees</u>	\$ 61,121	\$ 55,052
<u>Operating Cost & Expenses</u>		
Cost of Sales	13,758	268,140
Selling, General & Administrative	22,399	231,367
Depreciation & Amortization	5,695	37,991
Total Operating Cost & Expenses	<u>41,852</u>	<u>537,498</u>
Income or (Loss) From Operations	<u>19,269</u>	<u>(482,446)</u>
<u>Other Income (Expenses)</u>		
Interest Expense	(12,403)	(82,172)
Casulty Income	0	488,726
Miscellaneous	23,500	23,500
Other Income & (Expenses)	<u>11,097</u>	<u>430,054</u>
Income or (Loss)	<u>\$ 30,366</u>	<u>(52,392)</u>
<u>Accumulated Deficit</u>		
Beginning of Year		<u>(605,316)</u>
End of Year		<u>\$ (657,708)</u>